



# Montana State Trust Lands Return on Assets FY 2014

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## Trust Land Management Division Mission

Manage the State of Montana's trust land resources to produce revenues for the trust beneficiaries while considering environmental factors and protecting the future income-generating capacity of the land.

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## Preface

This *Return on Assets Report* is an annual publication from the Trust Lands Management Division (TLMD) of the Department of Natural Resources and Conservation (DNRC) detailing the earnings and business trends of state trust land and mineral management. This edition of the *Return on Assets Report* covers fiscal year 2014 (FY 2014), which began July 1, 2013 and ended June 30, 2014.

The *Return on Assets Report* is three sections which examine return on assets for each trust; land management program performance; and classified forest lands returns as required by law, see (MCA 77-1-223) and (MCA 15-44-103).

The *Return on Assets Report* is made available with specific accounting limitations. This report is not an official income or cash flow statement. Asset values and returns are estimated based on the best available data, revenues and expenses may vary from those reported in DNRC's *Annual Report* due to the inclusion or exclusion of specific accounts. Returns reported are income returns which do not account for year-over-year changes in asset values. Finally, unless otherwise noted, dollar values throughout the report are expressed in nominal terms.

## State Trust Performance

Montana state trust surface and mineral rights total 5.2 million surface acres and 6.2 million subsurface acres, respectively. Nearly eighty percent of trust surface acres are classified as grazing lands located primarily east of the continental divide. The remaining acres are classified as agriculture and forested lands with less than one percent in developed real estate including residential, commercial, community, and conservation properties.

These broad land assets are valued using estimation methods and professional judgment. Since 2003, land banking legislation (MCA 77-2-361-367) has legally permitted a limited number of state trust parcels to be exchanged, bought or sold through careful provisions. While operating to improve income generation, accessibility, and other parallel land management objectives, the land banking program also produces data on the value of a limited number of trust surface parcels. This data, in combination with USDA National Agriculture Statistics Service (NASS), helps support the evaluation of aggregated asset values. Mineral rights are excluded from this process and are not valued in this report. Mineral rights remain permanently reserved assets of the State (MCA 77-2-304) and cannot be sold, except by a rental and royalty basis as provided by law.

*Table 1* details current surface rights by trust. The largest trust is Common Schools, which owns over 89 percent, or 4.6 million acres of all school trust land in Montana. Surface ownership changes depending on sales and acquisitions from land banking and exchanges.

Table 1 - Surface Rights by Trust and Classification

*TLMS classified acres only, surveyed in December 2014, ranked by total acres*

Trust	Agriculture	Grazing	Forest	Real Estate	Total
Common Schools	554,819	3,705,426	347,446	17,580	4,625,271
Public Buildings	4,232	106,635	71,835	1,825	184,526
State Reform School	807	48,507	17,898	84	67,296
MSU - Morrill Grant	2,014	55,216	5,514	681	63,424
State Normal School	2,474	45,890	14,341	191	62,896
Montana Tech	6,328	36,802	15,770	461	59,361
School for the Deaf and Blind	1,409	24,217	10,399	436	36,461
MSU - 2nd Grant	84	8,410	22,640	872	32,006
Acquired Lands - Public Schools	-	-	32,295	-	32,295
University of Montana	1,869	13,514	1,440	21	16,844
Navigable Rivers	-	329	-	3,701	4,030
Veterans Home	90	1,270	-	57	1,418
Total	574,125	4,046,057	539,578	25,908	5,185,668

Table 2 details current mineral rights by trust. Common Schools is also the largest holder of mineral rights, owning over 5 million acres in oil and gas and coal development rights. Mineral ownership is permanent and cannot be sold or traded.

**Table 2 - Subsurface Rights by Trust and Classification**  
*TLMS classified acres only, surveyed in December 2014, ranked by coal*

Trust	Oil and Gas	Coal
Common Schools	5,598,150	5,437,728
Public Buildings	172,323	227,809
Montana Tech	86,267	86,267
State Normal School	80,135	83,285
State Reform School	73,487	78,125
MSU - Morrill Grant	77,929	77,929
MSU - 2nd Grant	46,918	47,404
School for the Deaf and Blind	41,170	41,170
University of Montana	33,754	33,754
Navigable Rivers	21,885	21,100
Veterans Home	1,276	1,276
<b>Total</b>	<b>6,233,294</b>	<b>6,135,847</b>

Table 3 reports historical USDA National Agricultural Statistics Service (NASS) survey data on farm real estate values in Montana from 2007 to 2014. NASS data is not region specific, but is useful as an aggregated observation of rural and working land value trends in Montana.

**Table 3 - Montana Farm Real Estate Values**  
*Acres and U.S. dollars reported by USDA NASS from 2007 through 2014*

Calendar Year	All Land		Agriculture		Grazing	
	Price/Acre	Annual Change (%)	Price/Acre	Annual Change (%)	Price/Acre	Annual Change (%)
2007	830	15.30%	784	3.70%	740	17.50%
2008	900	8.40%	811	3.40%	760	2.70%
2009	700	-22.20%	787	-3.00%	530	-30.30%
2010	700	0.00%	779	-1.00%	530	0.00%
2011	710	1.40%	807	3.60%	530	0.00%
2012	760	7.00%	853	5.70%	570	7.50%
2013	790	3.90%	890	4.20%	580	1.80%
2014	860	8.86%	987	10.34%	640	10.90%

*Table 4* reports FY 2014 estimated average asset values on a per acre basis. These values are appreciated from a FY 2011 baseline valuation with a conservative methodology utilizing the trend data provided by the USDA in *Table 3*. Rural lands are appreciated based on a proportion of appreciation reported annually by USDA farm land surveys. Real estate and other special use lands are valued based on existing appraisals by area.

**Table 4 - Average Asset Values by Area and Classification**

*U.S. dollars per acre estimated by DNRC FY 2014*

Land Office	Agriculture	Grazing	Forest	Real Estate*
Central	800	684	979	1,596
Eastern	343	229	0	1,176
Northeastern	571	287	327	2,353
Northwestern	2,280	1,367	1,902	41,726
Southern	856	514	0	2,486
Southwestern	1,255	912	1,250	18,543

\* Real estate values reflect existing DNRC appraisals which include cabins and buildings, proximity to urban areas, and other developed land market factors.

*Table 5* reports FY 2014 beginning estimated total asset values for each trust. Trust real assets totaled approximately \$3.163 billion. These sums are derived by formulating *Table 4* data with current classified acres.

**Table 5 - Total Average Assets by Trust and Classification**

*U.S. dollars estimated by DNRC FY 2014, ranked by total assets*

Trust	Agriculture	Grazing	Forests	Real Estate	Total Assets
Common Schools	333,740,497	1,474,731,254	574,575,919	96,620,202	2,479,667,872
Public Buildings	3,151,345	67,587,713	115,638,246	7,602,179	193,979,482
Navigable Rivers	-	58,605	-	140,287,521	140,346,126
Montana Tech	4,688,314	18,600,618	26,330,230	10,521,480	60,140,641
State Normal School	1,594,242	24,840,821	24,362,515	2,558,308	53,355,887
MSU – Morrill Grant	70,095	5,805,083	36,029,481	10,440,720	52,345,378
State Reform School	570,168	28,282,718	20,171,784	1,147,628	50,172,298
MSU – 2nd Grant	1,328,835	31,834,875	9,108,623	2,119,643	44,391,976
Acquired Lands - Public Schools	-	-	40,368,225	-	40,368,225
School for the Deaf and Blind	936,744	15,362,476	18,421,092	2,801,943	37,522,254
University of Montana	1,016,518	5,329,930	1,904,320	32,956	8,283,725
Veterans Home	205,200	364,507	-	2,179,056	2,748,763
<b>Total Real Assets</b>	<b>347,301,958</b>	<b>1,672,798,600</b>	<b>866,910,436</b>	<b>276,311,634</b>	<b>3,163,322,629</b>

Table 6 reports FY 2014 income returns by trust. The highest performing trust in FY 2014 was Montana State University, and the lowest again was Acquired Lands for Public Schools.

Table 6 - Revenues and Surface Returns by Trust

U.S. dollars estimated by DNRC 2014, ranked by income return

Trust	Mineral Revenue	Land Revenue	Land Expenses	Net Operating Income*	Income Returns**	FY 2013 Return
MSU - 2nd Grant	10,829	3,197,721	382,498	2,815,223	6.34%	4.52%
University of Montana	24,186	219,617	27,722	191,895	2.32%	3.92%
Montana Tech	63,283	1,596,181	316,848	1,279,333	2.13%	3.92%
State Normal School	18,609	1,317,924	325,609	992,316	1.86%	1.08%
MSU - Morrill Grant	32,925	918,822	106,267	812,555	1.55%	1.68%
Common Schools	35,640,779	36,296,812	8,110,894	28,185,917	1.14%	1.33%
School for the Deaf and Blind	9,066	359,991	142,830	217,161	0.58%	1.83%
State Reform School	48,165	462,579	176,310	286,270	0.57%	0.60%
Veterans Home	1,913	13,662	1,530	12,132	0.44%	0.60%
Public Buildings	82,903	1,468,868	884,980	583,888	0.30%	0.88%
Acquired Lands - Public Schools	0	16,063	10,086	5,977	0.01%	0.30%
Navigable Rivers	3,157,313	4,592,437	-	-	-	-
<b>Total</b>	<b>39,089,971</b>	<b>50,460,679</b>	<b>10,379,308</b>	<b>40,081,370</b>	<b>1.27%</b>	<b>1.50%</b>

\* Net operating income and income returns are estimated for surface activities only. Mineral revenues are reported for comparative purposes.

\*\* Income returns are calculated as the ratio of surface net operating income to estimated average asset value of the fiscal year.

## Trust Land Program Performance

Total program revenues and operational expenses have generally increased over the last eight years. *Table 7, Table 8, and Table 9* summarize program revenues, expenses, and net operating income, respectively.

**Table 7 - Trust Land Program Revenues**

*U.S. dollars reported by DNRC*

Program	Agriculture and Grazing Mgmt	Forest Mgmt	Real Estate Mgmt	Minerals Mgmt	Recreational Use Mgmt	Total Program Revenues	Hydro Leasing	Permanent Fund Interest/Other	Total Revenues
FY 2007	17,722,354	8,799,298	2,439,046	30,561,328	1,092,280	60,614,306	0	27,510,474	88,124,780
FY 2008	19,889,416	11,099,301	2,543,502	37,453,810	1,053,587	72,039,616	4,000,300	26,334,091	102,374,007
FY 2009	21,814,675	8,453,067	2,736,297	43,929,054	1,090,628	78,023,721	4,171,650	23,272,324	105,467,695
FY 2010	17,956,610	9,241,157	2,997,062	118,060,706	1,087,310	149,342,845	4,173,273	30,063,075	183,579,193
FY 2011	20,714,158	10,496,231	3,245,039	41,781,055	1,043,707	77,280,190	4,432,014	23,321,207	105,033,411
FY 2012	23,898,972	7,173,483	3,694,070	45,846,476	1,101,020	81,714,021	4,382,113	24,543,638	110,639,772
FY 2013	27,827,321	10,504,738	3,635,174	38,873,679	1,089,037	81,929,949	4,504,391	23,431,753	109,866,093
FY 2014	28,495,222	11,204,002	4,476,342	39,116,340	1,101,392	84,393,298	4,573,022	23,460,822	112,427,142

**Table 8 - Trust Land Program Expenses**

*U.S. dollars reported by DNRC*

Program	Agriculture and Grazing Mgmt	Forest Mgmt	Real Estate Mgmt	Minerals Mgmt	Recreational Use Mgmt	Total Program Expenses	Division Mgmt	Total Expenses
FY 2007	1,294,689	5,788,769	1,369,285	870,849	90,894	9,414,486	658,589	10,073,075
FY 2008	1,555,835	5,976,279	1,557,478	937,724	130,438	10,157,754	783,715	10,941,469
FY 2009	1,615,873	5,689,349	1,617,817	908,416	141,512	9,972,967	790,099	10,763,066
FY 2010	1,642,688	6,557,139	1,904,162	861,670	192,360	11,158,019	1,475,408	12,633,427
FY 2011	1,581,143	5,938,949	1,927,891	933,019	180,013	10,561,015	1,802,780	12,363,795
FY 2012	1,522,783	5,205,765	1,705,382	936,844	169,114	9,539,888	2,592,640	12,132,528
FY 2013	1,618,377	5,662,690	1,669,435	993,887	174,996	10,119,385	2,481,035	12,320,520
FY 2014	1,735,023	5,421,067	1,826,934	987,336	194,708	10,165,068	2,923,007	13,088,075

**Table 9 - Trust Land Program Net Operating Income**

*U.S. dollars reported by DNRC*

Program	Agriculture and Grazing Mgmt	Forest Mgmt	Real Estate Mgmt	Minerals Mgmt	Recreational Use Mgmt	Total Program Net Operating Income
FY 2007	16,427,665	3,010,529	1,069,761	29,690,479	1,001,386	51,199,820
FY 2008	18,333,581	5,123,022	986,024	36,516,086	923,149	61,881,862
FY 2009	20,198,802	2,763,718	1,118,480	43,020,638	949,116	68,050,754
FY 2010	16,313,922	2,684,018	1,092,900	117,199,036	894,950	138,184,826
FY 2011	19,133,015	4,557,282	1,317,148	40,848,036	863,694	66,719,175
FY 2012	22,376,189	1,967,718	1,988,688	44,909,632	931,906	72,174,133
FY 2013	26,208,944	4,842,048	1,965,739	37,879,792	914,041	71,810,564
FY 2014	26,760,199	5,782,935	2,649,408	38,129,004	906,684	74,228,230

## **Forest Land Report for all State Trust Beneficiaries MCA 77-1-223-225**

Table 10 provides the output directly calculated by formulas present in MCA 77-1-223-225. These formulas calculate a return that measures the net difference of activity between two time periods because they primarily utilize moving averages to calculate revenue and asset values. The resulting returns include much more information than business activity for the current year and therefore are difficult to interpret. A more transparent performance measure for the forest management program is the net operating income. As reported in Table 9, in FY 2014, the forest management program expanded profit margins to \$5.7 million boosting overall revenue to cost ratio above 2.

Table 10 - Forest Land Returns for all State Trust Beneficiaries in FY 2014

U.S. dollars and acres surveyed in TLMS

Trust	Land Office	Acres	2012 Asset Values	2013 Asset Values	2014 Asset Values	Acre Values	Return on Revenue
Common Schools	Central	13,402	1,658,576	838,376	856,478	64	57.51%
	N.west	213,165	191,097,221	169,546,221	152,340,346	795	-7.77%
	S.west	112,686	42,633,183	32,623,928	33,972,733	290	8.27%
	Total	339,253	235,388,981	203,008,525	187,169,557	598	-4.92%
University of Montana	Central	0	0	0	0	0	0.00%
	N.west	160	124,141	109,746	98,438	686	-10.30%
	S.west	1,280	410,121	305,058	322,267	238	5.65%
	Total	1,440	534,261	414,804	420,705	288	1.43%
MSU – Morrill Grant	Central	800	77,152	33,400	35,673	42	6.81%
	N.west	12,187	12,038,708	10,703,125	9,626,491	878	-9.82%
	S.west	9,654	3,916,145	3,069,855	3,136,489	318	2.17%
	Total	22,641	16,032,006	13,806,380	12,798,654	610	3.55%
MSU – 2 <sup>nd</sup> Grant	Central	0	0	0	0	0	0.00%
	N.west	3,375	3,497,306	3,112,252	2,800,456	922	38.13%
	S.west	2,137	537,075	398,497	411,675	186	7.01%
	Total	5,512	4,034,381	3,510,749	3,212,130	637	34.60%
Montana Tech	Central	1,267	255,825	154,666	150,978	122	-2.38%
	N.west	10,676	9,731,938	8,637,635	7,762,461	809	-9.83%
	S.west	3,827	1,432,182	1,114,458	1,140,303	291	2.45%
	Total	15,770	11,419,945	9,906,759	9,053,742	628	-5.50%
State Normal School	Central	585	106,053	62,235	61,187	106	-1.19%
	N.west	10,114	9,448,120	8,390,161	7,541,974	830	-1.08%
	S.west	3,642	1,378,289	1,067,059	1,098,302	293	19.70%
	Total	14,341	10,932,461	9,519,454	8,701,464	664	1.25%
School for the Deaf and Blind	Central	640	179,754	116,618	111,996	182	-3.96%
	N.west	8,583	8,074,244	7,171,203	6,446,710	836	-8.18%
	S.west	1,176	422,387	327,377	335,233	278	2.40%
	Total	10,399	8,676,384	7,615,199	6,893,940	732	-7.66%
State Reform School	Central	11,770	1,294,522	612,812	637,559	52	5.73%
	N.west	1,309	1,444,285	1,286,782	1,158,519	983	-8.82%
	S.west	4,928	2,217,763	1,663,360	1,788,494	338	14.17%
	Total	18,007	4,956,569	3,562,953	3,584,572	198	4.12%
Public Buildings	Central	2,564	527,396	320,389	312,393	125	3.56%
	N.west	40,687	33,353,881	29,530,520	26,506,976	726	-8.84%
	S.west	28,459	10,931,926	8,267,551	8,721,119	291	8.35%
	Total	71,710	44,813,203	38,118,460	35,540,488	532	-5.01%